

FRIEDBERG'S

LDC DEBT COMMENTS

Friedberg Commodity Management Inc.



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Chile:

Summary and conclusions

Under the direction of a highly competent team of economists who have patiently applied coherent economic policies, the Chilean economy has emerged from the Latin debt crisis stronger than ever — head and shoulders above its struggling neighbours.

In recent years, Chile's finance ministers and central bankers — more IMF than the IMF itself — have concentrated on basic macroeconomic issues. They've treated the debt problem as merely a symptom of general disequilibrium rather than as the principal target of economic policy. As a result, Chile's foreign debt/export ratio began to contract in 1985, moving up to the fourth spot in the Latin ranking, ahead of oil producer and favorite debtor Mexico.

Last year, Chile alone among the principal 32 less developed debtors in US Treasury Secretary Baker's original initiative *reduced* its total foreign debt by \$289 million, to stand at \$19.09 billion at the end of 1987.

This easing of Chile's loan burden was achieved through the application of various debt reduction schemes together with sound exchange rate and monetary policies and a highly attractive investment program. The latter included the most radical privatization effort made in any country with the exception of the United Kingdom.

We anticipate a substantial reduction in the foreign debt over the 1988 to 1989 period. Depending on copper prices, the total foreign debt could fall between \$2 billion (at copper prices of 75¢/lb.) and \$5.5 billion (at copper prices of \$1.30/lb.). This would reduce the debt problem to an irrelevant issue and return Chile to the voluntary credit market.

The implication of this is that Chilean debt, now trading in the mid 60s, could trade back to par, while providing its holders with juicy returns of LIBOR plus 5% or more.

Chile: opportunity and risk

Today, Chile is a modern and fast-growing developing nation, unfettered by price and/or wage controls or protectionist import barriers (no quotas and a uniform 15% tariff on imports). The country enjoys a healthy money and capital market (where 15- to 20-year bonds and mortgages trade actively). Foreign investors are attracted from as far away as New Zealand, Australia, Japan, the US, Canada, and the UK.

Charts 1 to 10 provide a summarized view of the country's vital statistics.

There are, of course, risks. There's the political risk, and then there's the risk of external deflation.

Under the 1980 constitution, the present government must call a plebiscite before March 1989. It probably will be held between September and December 1988. Should the government's candidate lose the yes/no vote, a full election will be held in early 1990. Regardless of the outcome of the plebiscite, elections will be held to install a Parliament in 1990.

A "no" vote could mean a return to more statist solutions and a course away from the present *laissez faire* economic policies. It also could endanger the present debt reduction schemes.

A "yes" vote would, of course, offer a guarantee of the continuation of the regime's economic policies, but could threaten to polarize Chile's society if the winning margin is too narrow.

A recent Gallup poll indicates a slightly widening margin in favor of the "yes," although it is much too soon to draw conclusions, given the opposition's lack of leadership and platform at this stage. A far better idea of trends will emerge after the official end of the summer season (March 15).

The second risk is the risk of a world deflation. Chile, a raw material producer (copper, fish products, forest products, and fruit), would see its terms of trade deteriorate sharply. This, in turn, would cause a new balance of payments crisis. At this stage, we rate the probability of a world deflation at less than 33%. Nevertheless, investors must take this risk into account.

Description of Debt Offered

Borrower: Banco Central de Chile (Guaranteed by the Republic of Chile)

Base rate: LIBOR

Spread: 1.125 percent per annum

All-in rate: 9.0625 percent per annum

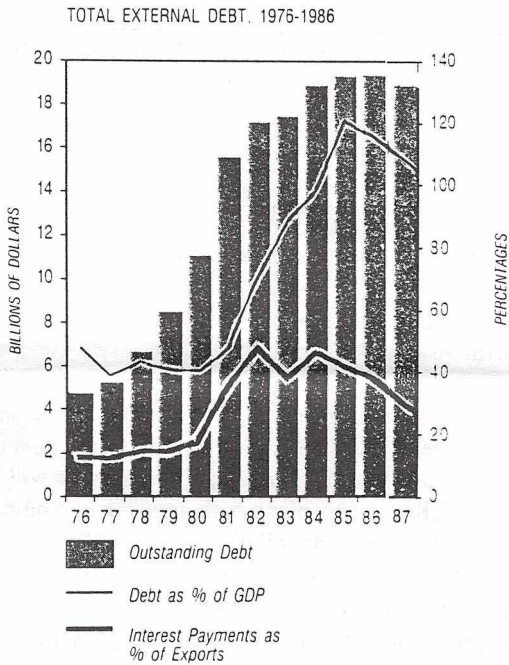
Interest period: Jan. 20/88 - Jan. 20/89 (annual)

Currency denomination: US dollar

Price: 65¾, subject to change

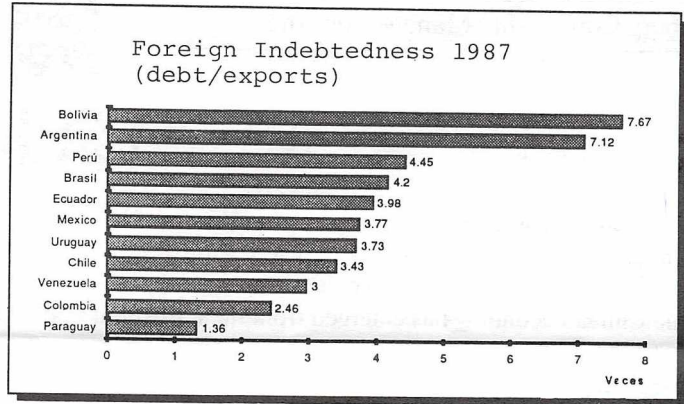
Current Yield: 13.78%

Chart 1



Source: Economic and Social Progress in Latin America, Inter-American Development Bank
 1987 : our estimates.

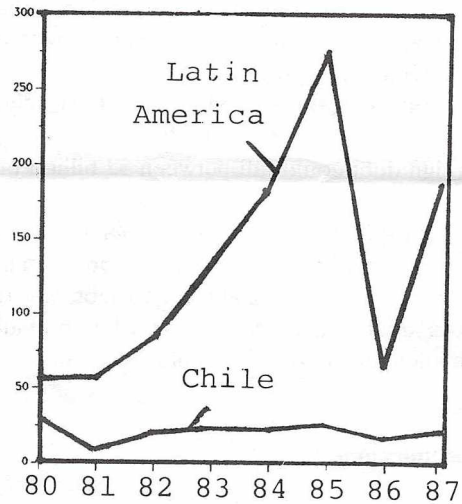
Chart 2



Source : ECLA

Chart 4

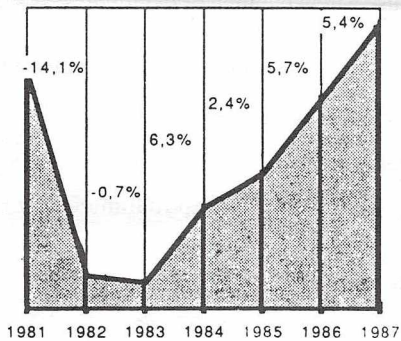
Consumer Prices (December/December)



Source : ECLA

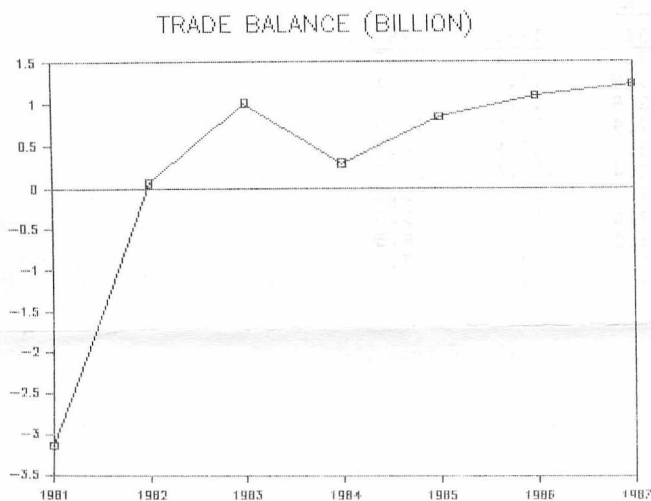
Chart 3

Evolution of GNP



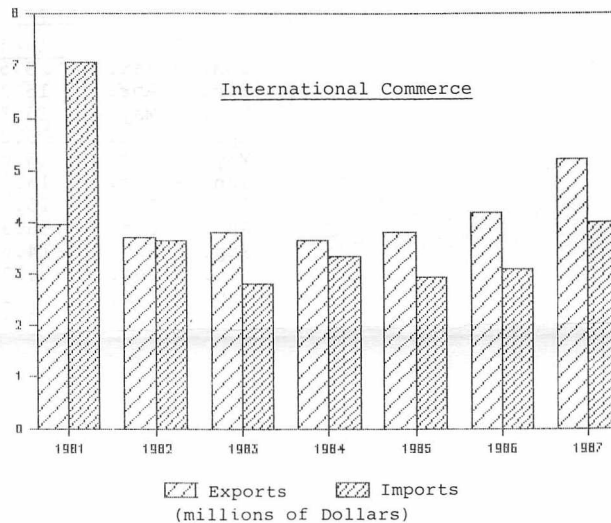
Source : Central Bank

Chart 5



Source : Central Bank

Chart 6



Source : Central Bank

Chart 7

International Assets

| | Gross International Reserves | Net International Reserves * |
|------|------------------------------|------------------------------|
| | (millions of dollars) | |
| 1980 | 4,196.6 | 4,073.8 |
| 1981 | 3,823.9 | 3,775.3 |
| 1982 | 2,583.8 | 2,377.5 |
| 1983 | 2,628.9 | 1,722.7 |
| 1984 | 2,836.6 | 1,575.9 |
| 1985 | 2,952.2 | 1,541.7 |
| 1986 | 3,106.2 | 1,778.3 |
| 1987 | 3,323.2 | 1,646.1 |

Source: Central Bank

* Net International Reserves correspond to international assets minus IMF credit and short term liabilities.

Chart 8

Employment
(in thousands)

| | 1984 | 1985 | 1986 | 1987 |
|-------------|---------|---------|---------|---------|
| Jan. - Mar. | 3,130.4 | 3,327.1 | 3,737.7 | 3,911.6 |
| Feb. - Apr. | 3,104.7 | 3,337.1 | 3,765.3 | 3,919.5 |
| Mar. - May | 3,115.9 | 3,356.6 | 3,747.2 | 3,922.8 |
| Apr. - Jun. | 3,109.8 | 3,346.6 | 3,743.2 | 3,883.3 |
| May - Jul. | 3,128.1 | 3,338.8 | 3,741.9 | 3,848.1 |
| Jun. - Aug. | 3,136.8 | 3,311.5 | 3,759.5 | 3,844.3 |
| Jul. - Sep. | 3,161.6 | 3,275.3 | 3,767.1 | 3,844.9 |
| Aug. - Oct. | 3,148.4 | 3,440.7 | 3,802.4 | 3,880.1 |
| Sep. - Nov. | 3,228.0 | 3,484.2 | 3,842.6 | 3,950.4 |
| Oct. - Dec. | 3,268.0 | 3,537.4 | 3,895.7 | 4,010.8 |
| Nov. - Jan. | 3,311.3 | 3,720.7 | 3,911.6 | |
| Dec. - Feb. | 3,316.7 | 3,720.8 | 3,902.1 | |

Source : INE

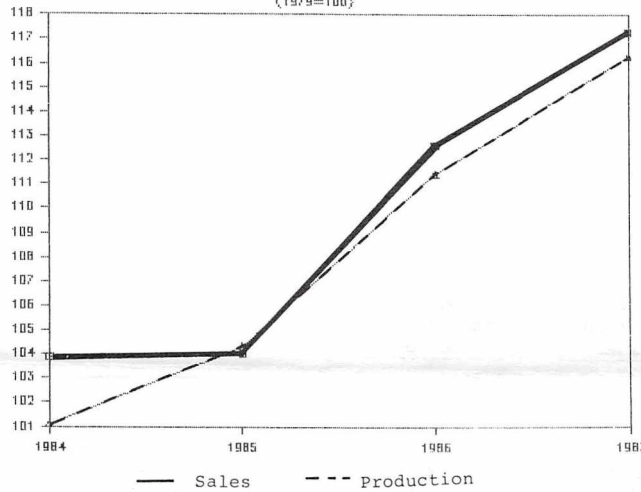
Chart 9

| | | Unemployment Rate | | | |
|-------------|--|-------------------|------|------|------|
| % | | 1984 | 1985 | 1986 | 1987 |
| Jan. - Mar. | | 15.5 | 13.0 | 11.8 | 7.7 |
| Feb. - Apr. | | 15.9 | 13.0 | 11.1 | 9.1 |
| Mar. - May | | 15.8 | 12.8 | 11.0 | 9.7 |
| Apr. - Jun. | | 16.2 | 12.9 | 11.0 | 10.3 |
| May - Jul. | | 16.0 | 13.1 | 10.8 | 10.5 |
| Jun. - Aug. | | 16.1 | 13.4 | 10.6 | 10.3 |
| Jul. - Sep. | | 15.7 | 13.6 | 10.5 | 10.0 |
| Aug. - Oct. | | 15.3 | 13.6 | 10.2 | 9.6 |
| Sep. - Nov. | | 14.6 | 13.0 | 9.7 | 8.5 |
| Oct. - Dec. | | 14.0 | 12.0 | 8.8 | 7.7 |
| Nov. - Jan. | | 13.0 | 12.2 | 8.4 | |
| Dec. - Feb. | | 12.8 | 12.0 | 8.6 | |

Source : INE

Chart 10

INDUSTRIAL SALES AND PRODUCTION INDEX
(1979=100)



Source: INE

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Trading Accounts
All enquiries concerning trading accounts should be directed to Friedberg Mercantile Group
347 Bay Street
Toronto, Ontario M5H 2R7
(416) 364-2700

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